

State of Montana
Office of the Legislative Auditor

PERFORMANCE AUDIT

MONTANA LOTTERY SECURITY
DEPARTMENT OF COMMERCE

This report is required by section 23-5-1029,
MCA, and contains recommendations for
improving security over Lottery operations.
The recommendations concern:

- ▶ Improving security over computer operations
- ▶ Improving security over Lottery building
in Helena
- ▶ Updating the current policies and pro-
cedures manual

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PERFORMANCE AUDITS

Performance audits conducted by the Office of the Legislative Auditor are designed to assess state government operations. From the audit work, a determination is made as to whether agencies and programs are accomplishing their purposes, and whether they can do so with greater efficiency and economy. In performing the audit work, the audit staff uses audit standards set forth by the United States General Accounting Office.

Members of the performance audit staff hold degrees in disciplines appropriate to the audit process. Areas of expertise include business and public administration, statistics, economics, computer science, and engineering.

Performance audits are performed at the request of the Legislative Audit Committee which is a bicameral and bipartisan standing committee of the Montana Legislature. The committee consists of four members of the Senate and four members of the House of Representatives.

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Office of the Legislative Auditor
PERFORMANCE AUDIT REPORT
MONTANA LOTTERY SECURITY
DEPARTMENT OF COMMERCE

January 1989
Report 87P-43A

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Members of the audit staff involved in this audit were: Dave Gould, manager; Rob Spear, in-charge-auditor; Shari Scoles, EDP auditor; Joe Murray, staff auditor; and Diane Hulst, staff auditor.



STATE OF MONTANA
Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

January 1989

The Legislative Audit Committee
of the Montana State Legislature:

This is the report of our performance audit of security at the Montana Lottery of the Department of Commerce. This report contains recommendations concerning security over Lottery operations and procedures used in administering Lottery operations. The Lottery response is contained at the end of the report.

We wish to express our appreciation to the staff of the Lottery for their cooperation and assistance.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", written over the printed name and title.

Scott A. Seacat
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

DEPARTMENT OF COMMERCE

Keith L. Colbo, Director (Term Ended December 1988)
Andy Poole, Acting Director

MONTANA LOTTERY COMMISSION

Spencer Hegstad, Chairman

Pat DeVries

Jim Moore

Glen Osborne

Vacant

MONTANA LOTTERY

Diana Dowling
John Onstad
Jerry LaChere
Nancy Goodspeed

Director
Director of Security
Director of Operations
Director of Marketing

OFFICE OF THE LEGISLATIVE AUDITOR

PERFORMANCE AUDIT OF MONTANA LOTTERY SECURITY

Report Summary

In 1985, the Montana Legislature proposed a referendum asking voters to decide on the issue of having a state Lottery. In November of 1986 the people of Montana passed Legislative Referendum 100 establishing a state lottery. Lottery ticket sales began on June 24, 1987 with the first instant game tickets going on sale to the public. Montana is one of twenty-eight states currently operating a lottery in the United States.

Section 23-5-1029, MCA, states, "after the first nine months of sales to the public and every two years after that, the office of the legislative auditor shall conduct or have conducted a comprehensive audit of all aspects of security in the operation of the lottery."

This audit identified areas where the Lottery can improve security. The following sections summarize the results of our performance audit. During our audit we also identified areas which address potential security invasion and must remain confidential. We have prepared a separate report which covers these issues.

COMPUTER SECURITY

As part of our audit, we examined security controls over the Lottery's computer system. Computer security controls protect assets and limit losses from three types of basic threats: intentional acts such as fraud and sabotage; disasters such as water and fire; and human errors and omissions such as data entry errors.

During our audit we noted concerns with computer security reviews; EDP audit/data security administrator functions; and physical and environmental controls.

Computer Security Reviews

Many of the computer security weaknesses detected during our audit could have been addressed by an internal security evaluation performed by the Lottery. The Lottery reviewed the software provided from Scientific Games, Inc. to determine if it functioned properly; however, the Lottery has not performed an internal evaluation of data and information technology resources security.

In order to improve security over computer operations, we believe the Lottery should perform an internal security review.

EDP Auditor Independence

The EDP auditor position is currently not an internal audit function as intended by the job description for that position. The EDP auditor performs operational duties which are not consistent with auditor responsibilities.

In order to perform his auditing duties in an independent manner, we believe the Lottery should remove the EDP auditor from duties affecting his independence.

Data Security Administrator

The data security administrator is deciding who obtains file access and is also entering file and program access rights into the computer. We found little documentation to support the reasons why people were given their access rights. Management was not informed of and did not authorize any access changes.

In order to properly control the data administrator function, we believe the data security administrator should document file access rights to allow review by management. We also believe data processing management should monitor and authorize these access rights independent of the data security administrator.

Water Pipes

We noted the location of a sink and water pipes make Lottery computer operations vulnerable to disruption from water damage. In order to minimize the possibility of considerable damage to the computer system, we believe the Lottery should eliminate the flow of water to the loft area above the computer room and protect backup computer equipment from water damage.

Backup and Disaster Recovery

The Lottery does not have a formal, tested backup and recovery plan or an alternate site agreement. Backup and recovery capabilities should be sufficient to restore files and applications when loss or damage to data occurs.

We believe the Lottery should develop a formal tested backup and disaster recovery plan that includes backup equipment options.

Tape Storage/Delivery

During our audit we found many tapes are stored horizontally and during delivery are transported without protective coverings. Exposing tapes to physical and environmental dangers could destroy data contained on tapes resulting in disruption

of lottery operations. We recommend the Lottery store all computer tapes vertically and transport tapes with protective coverings.

BUILDING SECURITY

As part of our audit we reviewed the security over the Lottery building in Helena to determine if any deficiencies existed. We identified improvements that can be made with the Card Access System, key control and the backup power supply room.

Time Zones and Access Levels

The Card Access System allows Lottery employees to have access in several different time zones and building areas. The current time zones built into the system appear excessive. Liberal time zones increase the chance of unauthorized access to the lottery building and warehouse. The Lottery does not have written policies and procedures explaining the criteria for developing employee access levels and time zones.

We recommend the Lottery formalize policies and procedures explaining the criteria for employee access levels and time zones and structure the time zones to reflect security needs.

Reviewing the Card Access Printout

Security personnel at the Lottery are not reviewing the Card Access printout on a daily basis. By not reviewing the printout daily, security personnel do not monitor who is entering and exiting different areas of the Lottery building and are not following up on potential problems on a timely basis.

In order to better monitor access in and out of the building, we believe security personnel should review the printout on a daily basis.

Card Access System Alarm

The Card Access System alarm consists of a buzzer inside the computer console. Because the console is located in the backup power supply room in the warehouse, the alarm cannot be heard by security personnel in the office area.

We believe the Lottery should move the Card Access System alarm to an area where security personnel can immediately hear it. If a security breach occurs Lottery officials can immediately investigate, thus improving building security.

Key Control

The Lottery does not have any policies and procedures for key control or keep detailed records for key issuances and return. Failure to have key issuance and recovery procedures and adequate records could result in loss, misplacement or non-return of keys. We believe procedures and records of key issuances will improve security over the Lottery building.

Backup Power Supply Room

The Lottery has a room containing several components crucial to Lottery operations. During our observations of warehouse security we noted the backup power supply room was not locked. In order to protect against unauthorized accesses to the room by Lottery employees or intruders, the room should be kept locked at all times.

OTHER SECURITY/MANAGEMENT CONTROLS

During our audit we evaluated other security and management controls relating to Lottery operations. We found the following areas need improvement.

Overall Policies and Procedures

The Lottery does not have an updated policies and procedures for its overall operation. Many parts of the original manual supplied by Scientific Games, Inc. do not reflect current operations.

We recommend the Lottery update and follow the present policies and procedures manual for Lottery operations.

Security Policies and Procedures

The Lottery does not have formal security policies and procedures as part of its overall manual. We recommend the Lottery develop a security policies and procedures section to be included in the overall policies and procedures manual.

Employee/Retailer Background Checks

The Lottery does not have any formal written policies and procedures for conducting employee/retailer background checks. We also noted a background check was not completed on the janitorial firm contracted by the Lottery.

We recommend the Lottery develop policies and procedures for employee/retailer background checks and conduct a background check on the janitorial firm employed by the Lottery.

Position Descriptions and Job Duties

We noted several Lottery employees are performing duties inconsistent with their job descriptions. Position descriptions should include all the duties an employee is required to perform. We recommend the Lottery update position descriptions to accurately describe duties performed by employees.

Performance Appraisals

Performance appraisals have not been completed for any Lottery employees since the Lottery's inception. Job objectives and standards are still in the drafting process. The Montana Operations Manual requires that employees be appraised at least annually. We recommend the Lottery implement a formal employee performance appraisal system.

Working Paper Documentation

The internal audit function of the Montana Lottery does not maintain adequate documentation to support the audit reports issued. Without adequate documentation in the form of audit plans, programs and working papers, it is difficult for management and external auditors to review and rely on work performed by the internal audit staff function.

We recommend the Lottery internal audit function maintain better documentation in the form of plans, programs, and working papers.

Special Promotions

The Instabuck program is an ongoing special promotion program involving the use of coupons. At the present time there are inadequate policies for the distribution of Instabucks. Instabucks can only be accounted for in large quantities and the potential exists for retailers to receive an additional discount on the purchase of instant game tickets.

Sound policies and procedures will provide guidance for Lottery employees when carrying out the intentions of promotions and ensure strong controls are maintained. We also believe the security department should be involved whenever

special promotions are considered. If promotions are borrowed from other states, security should contact that state's security department about that promotion.

We recommend the Lottery develop policies and procedures for Instabuck distributions and involve the security staff in the planning and development of special promotions.

Legislative Liaison Committee

By law a Legislative Liaison Committee was established to report to the Legislature on the activities and operations of the state lottery. The statute also requires the committee meet with the Lottery Commission on an annual basis.

As of December 1988, the Legislative Liaison Committee and the Lottery Commission have not held any meetings. We recommend a meeting be scheduled every fiscal year between the Legislative Liaison Committee and Lottery Commission.

CHAPTER I

INTRODUCTION

Section 23-5-1029, MCA, states, "after the first 9 months of sales to the public and every two years after that, the office of the legislative auditor shall conduct or have conducted a comprehensive audit of all aspects of security in the operation of the lottery."

The objectives of this performance audit were to determine:

1. Adequacy of security over the computer systems used by the Lottery.
2. Adequacy of building security at Lottery headquarters in Helena.
3. Adequacy of Lottery mail handling procedures.
4. Adequacy of security over Lottery instant games, promotions and instant game tickets.
5. Adequacy of procedures used for employee and retailer background checks.
6. Adequacy of management controls over Lottery operations relating to security.
7. Lottery compliance with state laws, administrative rules and state policies relating to Lottery security.

STATEMENT OF PRIVILEGED AND CONFIDENTIAL INFORMATION

According to section 23-5-1030, MCA, "Specific audit findings relating to security invasion techniques are confidential and may be reported only to the legislative audit committee, the director of the lottery, the commission, the attorney general, and the governor." During our audit work we identified areas which address potential security invasion and must remain confidential. We have prepared a separate report which covers these issues. The areas addressed are: computer security controls; alarm systems; warehouse structures; and ticket storage.

SCOPE OF AUDIT

This audit was conducted in accordance with government auditing standards for performance audits. Audit work focused on all aspects of security over Lottery operations and related management controls.

During our audit work we reviewed security over the Lottery building, instant game tickets and special promotions, and the Lottery computer system. We reviewed

computer security controls over the Lottery's Stratus computer system. We also visited Lottery marketing representatives and retailers to evaluate security measures used when delivering and storing instant game tickets.

At Lottery headquarters in Helena, we examined management controls relating to security. This included interviewing Lottery staff and observing procedures used in performance of their duties. We also relied on audit work previously performed by our office, and by a private auditing firm under contract with our office to conduct a financial audit of Lottery operations and to monitor all Big Spin Drawings and Big Spins.

As part of our audit work we reviewed the computer systems at Scientific Games, Inc. operations in Atlanta, Georgia, and Gilroy, California. Scientific Games, Inc. provides the Lottery with instant game lottery tickets and related services used in administering Lottery operations. We reviewed controls over the computer operations used to generate game prize structures and over the printing process used to produce instant game tickets.

Lottery programs in other states were contacted to provide information on how other programs operate.

ADEQUATE SECURITY AREAS

During our audit we evaluated security and management controls relating to Lottery operations. We believe Lottery management and staff have made a good effort at establishing adequate security over its operations. The following are areas in which overall security appears adequate:

1. Big Spin Drawings and Big Spin Events.
2. Security and background checks for employees and retailers.
3. Delivery of instant game tickets to the Lottery headquarters and to retailers.
4. Controls to prevent premature identification of winning instant game tickets.
5. Controls against forging of instant game tickets.
6. Destruction/disposal of non-selected Big Spin drawing tickets and envelopes.

Although the Lottery has developed security and management controls we have identified areas where Lottery security could be improved. In our reports we identify a number of security weaknesses which could cause problems for the Lottery.

During our audit work we did not find instances of improper or illegal activity resulting from the identified weaknesses. The potential for such activity can be decreased if the Lottery implements our recommendations.

COMPLIANCE

As part of our audit we reviewed compliance with state laws, administrative rules, and state policies relating to Lottery security operations. We generally found the Lottery was in compliance with state laws, rules and policies. Two instances of noncompliance were noted during our examination and are included in this report. The first issue concerns the internal evaluation of security over the Lottery's computer system. The second issue concerns the Legislative Liaison Committee established to report on Lottery activities to the Legislature.

INTERIM MEMORANDUMS

During the audit we notified Lottery officials of control weaknesses. These areas related to potential report issues and recommendations. In addition, we issued management memorandums during the start-up phase of Lottery operations and during the course of our audit work. These management memorandums addressed concerns identified during our audit work that were not significant enough to include in our audit report. The memorandums addressed:

- warehouse security;
- the Card Access System;
- the inventory process;
- storage, handling, and disposition of Lottery instant game tickets and envelopes;
- ticket validation numbers;
- the evaluation of instant games and special promotions;
- the visitor log book;
- logos on Lottery vehicles;
- Lottery vehicle alarms;
- controls over the signature stamp machine;
- concerns identified during our visits to Scientific Games, Inc. operations in Georgia and California;

- controls over the computer system modem;
- documentation of cases with special security considerations;
- the audit trail for void checks;
- input controls for master files;
- documentation of computer applications;
- inspection of the inventory tape seal;
- internal auditor independence;
- controls over the status of ticket inventory; and,
- the computer room.

CHAPTER II

BACKGROUND

In 1985, the Montana Legislature proposed a referendum asking voters to decide on the issue of having a state lottery. In November of 1986, the people of Montana passed Legislative Referendum 100 establishing a state lottery. Lottery ticket sales began on June 24, 1987, with the first instant game tickets going on sale to the public. Montana is one of twenty-eight states currently operating a lottery in the United States.

The Lottery has established five major goals for the operation of the Lottery:

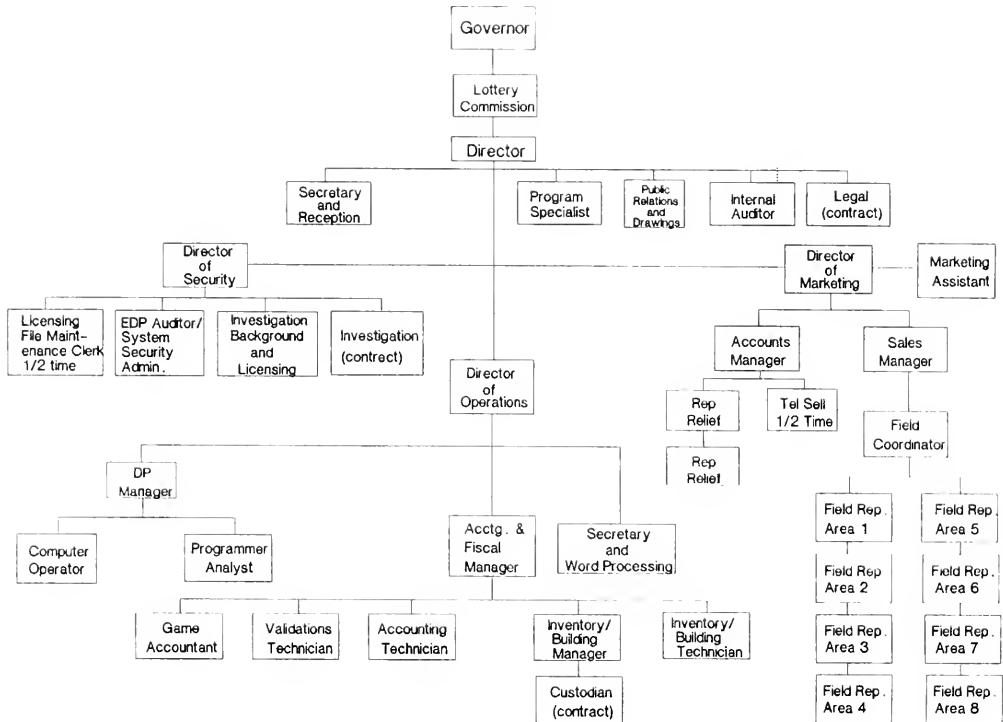
1. To maximize the sales potential of lottery products in the state of Montana.
2. To maintain the dignity of the State while utilizing competitive marketing strategies in the sale of lottery products.
3. To inform and educate players, retailers, legislative members, governmental officials, and the public at large by providing and distributing accurate and timely information about lottery operations.
4. To maximize staff potential and encourage excellence in the workplace.
5. To monitor and maintain adequate flexibility in operations, policies, and procedures to allow timely development of new products, ideas, and management techniques.

This chapter provides an overview of Montana Lottery operations. It describes the Lottery organization, funding, computer operations, instant games, Big Spin Drawings and Big Spins.

LOTTERY ORGANIZATION

The Montana Lottery is assigned to the Department of Commerce for administrative purposes only. The Lottery Commission, along with the Director of the Lottery, supervises Lottery operations. The following chart displays the organizational structure of the Lottery.

MONTANA LOTTERY



Source: Montana Lottery

Illustration 1

Lottery Commission

During December of 1986, the Governor appointed a five-member Lottery Commission and an executive director to oversee the operations of the Montana Lottery. According to section 23-5-1006, MCA, "At least one commissioner must have 5 years of experience as a law enforcement officer. At least one commissioner must be an attorney admitted to the practice of law in Montana. At least one commissioner must be a certified public accountant licensed in Montana." The remaining two board members are public members. Currently one position is held by a representative of the general public and the other is vacant.

The Commission must meet with the Director at least once every three months to set policies and supervise the activities and operations of the Lottery.

Lottery Staff

The Director of the Montana Lottery coordinates the three main divisions of the Lottery: security (3.5 FTE); marketing (14.5 FTE); and operations (12 FTE). There are also 5 FTE in the administration function of the Lottery. Each of the three main divisions is headed by a Director. In total there are 35 full-time employees, including marketing representatives serving Bozeman, Great Falls, Kalispell, Missoula, Billings, Miles City, Glasgow, Helena, and Butte.

SECURITY OPERATIONS

The Lottery security division is staffed by a director, investigator, electronic data processing (EDP) auditor and a half-time licensing clerk. The security division is responsible for monitoring all aspects of security for Lottery operations. This includes performing background checks for all prospective Lottery employees and retailers, issuing licenses to retailers, ensuring the security, integrity and quality of lottery tickets, and directing the investigation of alleged lottery fraud. The security division also monitors Big Spin Drawings and Big Spins to ensure they are conducted fairly and securely.

FUNDING

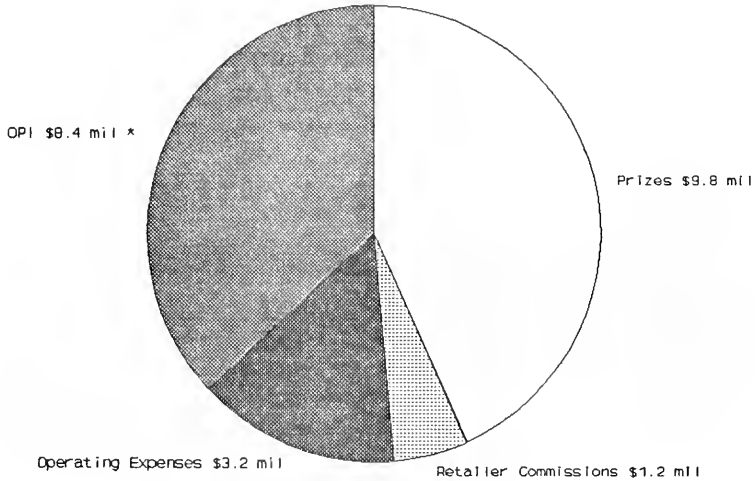
Lottery operations are funded through the sale of Lottery instant game tickets. For each dollar spent on a ticket, the money is required by statute to be distributed as follows:

- as near as possible 45% of the money must be paid out as prize money;
- up to 15% of gross revenue may be used for operating expense;
- no more than 5% to be used for retail commissions; and
- all gross revenue not used for prizes, commissions, and operating expenses is net revenue and must be paid quarterly to the Superintendent of Public Instruction.

For the first full fiscal year of operations the Lottery collected 21.8 million dollars in revenue. All revenue not used for the payment of prizes, commissions, and operating expenses is paid quarterly to the Montana Office of Public Instruction (OPI). The Office of Public Instruction recently transferred 8.4 million dollars to Montana counties to help pay for local school district employee retirement benefits. The actual Lottery revenue distributions are displayed in the following chart.

MONTANA LOTTERY REVENUE DISTRIBUTIONS

FISCAL YEAR 1987-88



* OPI figures include June 24-June 30, 1987
and July 1, 1987 -June 30, 1988 (FY 1987-88)

Source. Compiled by the Office of the Legislative Auditor
from Financial Compliance Contract Audit Figures

Illustration 2

COMPUTER OPERATIONS

The Montana Lottery purchased a Stratus minicomputer to perform data processing operations. The system uses Instant Lottery Software (ILS) purchased from Scientific Games, Inc. The Lottery also uses five microcomputers to assist Lottery personnel in the administration of Lottery operations. There are four full-time Lottery employees involved in computer operations, including a data security administrator/EDP auditor.

The Lottery uses the ILS to verify winning tickets; write checks to winners; void unused, returned or stolen tickets; monitor and issue inventory; collect payments from retailers using Electronic Funds Transfer (EFT); and collect data on prize winners. One microcomputer is used in the development of prize structures for each instant game.

INSTANT GAMES

The Montana Lottery started operations by offering instant game tickets to Lottery purchasers. The instant game allows players to find out instantly if they are winners by rubbing a latex coating off of a ticket. If the ticket play symbols match up, line up, or add up; the player wins instantly.

Game Design/Prize Structure

With the exception of the first three Lottery instant games, which were designed by Scientific Games, Inc., all games are designed by Lottery staff. Staff members meet periodically to discuss game strategies, prize structures and ticket specifications. Once this information is put together it is sent to Scientific Games, Inc. where working papers for each game are developed. These working papers are then sent back to the Lottery where they are analyzed and reviewed by several Lottery staff members. Several draft versions of working papers are developed and reviewed before a final game design and prize structure is executed.

As mentioned above, each game has a prize structure. The Lottery has made the decision to offer two games simultaneously to the public, with each game having a different prize structure. For example, one game will have a lower top prize (i.e., \$100, \$500), while the other game will have a higher top prize (i.e., \$10,000, \$15,000).

Prize structures are based on 240,000 tickets (a pool). Within each pool the prize structure will remain constant, with the total low-tier and high-tier prizes equaling 45 percent of the total sales value of those tickets. The following is an example of a prize structure developed for a recent instant game.

INSTANT GAME PRIZE STRUCTURE

<u>Prize</u>	<u>Odds</u>	Guaranteed Winners <u>In 500*</u>	Winners In <u>240,000</u>	Winners In <u>17 Pools</u>
Ticket	1:8	62	29,760	505,920
\$2	1:14	35	16,800	285,000
\$3	1:83	6	2,800	48,690
\$4	1:250	2	960	16,320
\$9	1:500	1	480	8,160
\$18	1:500	1	480	8,160
\$50	1:5,581	--	43	731
\$500	1:240,000	--	1	17
\$5000	1:408,000	--	--	10
		107	51,404	873,878

* A guaranteed Low-End Prize Structure (GLEPS) is used for each pack of 500 tickets. Every pack of tickets in a given game has the exact same dollar amount for low tier prizes (prizes \$25 or less).

Source: Montana Lottery

Illustration 3

Ticket Delivery/Inventory

All instant game tickets are printed by Scientific Games, Inc. in Gilroy, California, and shipped to Lottery headquarters nonstop via semi-trailer. When the trailer arrives at Lottery headquarters, the Director of Security inspects the trailer for any tampering. Once the Director of Security is satisfied the trailer has not been tampered with, the seal on the trailer is cut and the trailer opened. The contents are then inspected by the warehouse supervisor for any damage. The trailer is then unloaded and the tickets moved to the fenced area inside the warehouse.

Once all the tickets are in the warehouse, a 100 percent inventory is conducted. As part of the inventory process, a visual inspection of each pack of tickets is performed. The packs are examined to ensure: the first ticket number is 000 and the last is 499; the latex covering on the first page of tickets is free from scratches; all the play symbols are covered by latex; all the elements on the first page of tickets are in proper alignment; the general appearance of tickets is good; and the shrink-wrap is free of tears. Any defective packs are recorded and pulled from inventory. After the inventory is complete the tickets are separated into marketing representative regions in the warehouse. Once the tickets are separated into regions, they

are ready for delivery to marketing representatives. At the start of a new instant game the tickets are picked up by marketing representatives or delivered by Lottery staff. However, periodically the Lottery uses the United Parcel Service to send tickets to retailers in a region. Normally this is done when marketing representatives are on vacation and a retailer needs tickets delivered.

Retailers

There are approximately 1,000 retailers licensed to sell lottery tickets in Montana. Before retailers are considered for a license, they are subject to a background investigation by the Lottery's security department. According to section, 23-5-1019, MCA, "No person who has been convicted of a felony or a gambling-related offense under federal law or the law of any state may be a commissioner, director, assistant director, employee of the state lottery, or licensed ticket or chance sales agent."

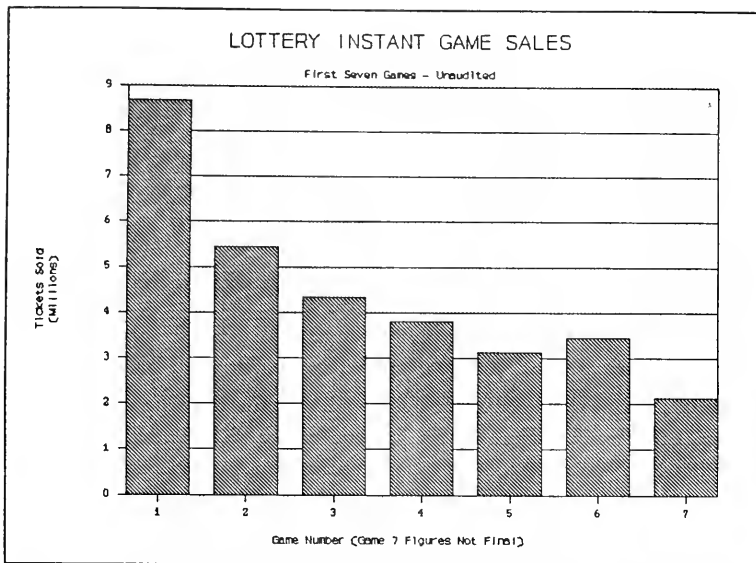
The cost of a license is \$50 which is used to cover the cost of investigating and processing the application.

End of Game Inventory

At the conclusion of each instant game, all unsold tickets are returned by retailers to marketing representatives in each region. The marketing representatives are then responsible for returning all these tickets to Lottery headquarters. Upon receipt of unsold tickets from all regions, a 100 percent inventory is performed, and an audit of tickets is conducted by the Lottery's internal auditor.

Ticket Sales

The Lottery is currently offering its eighth and ninth instant games for sale to the public. Sales figures for the first seven instant games are displayed by the following chart. Sales figures for game seven are not complete.



Note: The above chart lists sales by game and does not accurately represent the actual decrease in sales over time because the Lottery is offering two games simultaneously.

Source: Compiled by the Office of the Legislative Auditor from Lottery records

Illustration #4

BIG SPIN DRAWINGS AND BIG SPINS

If Lottery players are not successful in winning a prize in an instant game, they may send five non-winning tickets to the Lottery for a chance to participate in the Big Spin. All Big Spin Drawings and Big Spins are videotaped and witnessed by an independent auditor contracted with the Office of the Legislative Auditor. We reviewed the periodic reports produced by the contract auditor and found no significant security concerns. Based upon these reports and on previous observations done by our office, it appears that security over these events is adequate.

Big Spin Drawings

Big Spin entries are mailed to the Post Office in Helena where they are picked up by Lottery employees on a daily basis. The envelopes are then stored in hampers, inside a locked, fenced area inside the Lottery warehouse. Once a week, usually on Friday, the envelopes are prepared for the Big Spin Drawing. Envelopes are placed in a large garbage can lined with two large plastic bags, the bags are then filled until

they equal the weight of 3,000 envelopes. After the bags are filled they are removed from the garbage can, sealed with evidence tape and plastic ties, and dated.

The Big Spin Drawings are held every Monday at Lottery headquarters in Helena. Originally, the number of finalists was based on the number of tickets sold (one finalist for every 120,000 tickets sold). However, the Lottery has recently decided to have three finalists for each Big Spin regardless of ticket sales.

At the drawing a non-lottery employee will select three envelopes from each of the plastic bags. These envelopes are then placed into a large drum and mixed thoroughly prior to drawing the finalists. Then the finalists' envelopes are drawn one at a time, opened and checked to see if they are valid entries. A valid entry consists of five non-winning tickets from eligible games, tickets from only one person, and a means to identify the person such as a readable name and address.

Before the Big Spin finalists are notified by a certified letter, a validation check is conducted. Numbers from the non-winning tickets are entered into the computer to ensure the tickets are valid and not stolen.

Big Spins

The Montana Lottery has awarded over six million dollars in prizes to Big Spin winners. The current Big Spin Wheel has 100 slots on the wheel with prizes ranging from \$3,000 to one million dollars. The prize structure on the wheel has been changed twice since the Big Spin was initiated. The following chart displays the changes made to the original Big Spin Wheel prize structure.

BIG SPIN WHEEL PRIZE STRUCTURE					
<u>Original</u>		<u>First Change</u>		<u>Current</u>	
<u>Prizes</u>	<u>#of Slots</u>	<u>Prizes</u>	<u>#of Slots</u>	<u>Prizes</u>	<u>#of Slots</u>
Jackpot	2	Jackpot	2	\$1 Million	1
\$10,000	10	\$25,000	3	\$100,000	2
\$ 5,000	10	\$10,000	10	\$ 50,000	3
\$ 4,000	10	\$ 5,000	10	\$ 25,000	4
\$ 3,000	10	\$ 4,000	10	\$ 10,000	20
\$ 2,000	50	\$ 3,000	10	\$ 5,000	25
\$ 1,000	8	\$ 2,000	50	\$ 4,000	35
		\$ 1,000	5	\$ 3,000	10
Source: Compiled by the Office of the Legislative Auditor from Lottery records					
Illustration #5					

The current prize structure of the wheel is constant and the jackpot amount does not increase after each unsuccessful spin. The jackpot initially increased \$25,000 after each unsuccessful spin, and then \$15,000 prior to the most recent change.

Prior to contestants spinning the wheel, a randomization test of the Big Spin wheel is conducted by Lottery personnel to determine if the wheel is producing prize amounts in a random manner. Normally six test spins of the wheel are done; however, if the wheel is moved to a new location, Lottery personnel will conduct one-hundred test spins. Once the wheel satisfies the randomness test, six additional pre-test spins are conducted that are recorded by the event manager, security officer and independent auditor. These spins ensure the wheel is producing amounts in a random manner.

Once the Big Spin event starts, each contestant is allowed one valid spin. In order for a spin to be valid, the wheel must make two complete revolutions and the ball must remain in a slot for five seconds.

At the conclusion of the Big Spin event, six post-test spins of the wheel are conducted. These spins are also recorded by the event manager, security officer, and independent auditor.

All cash prizes of \$100,000 or less are paid in full (minus taxes) to winners immediately upon completion of the event. Prizes exceeding \$100,000 are paid through annuities for up to twenty years in equal installments.

Alternate Big Spin Method

If for any reason the Big Spin Wheel is damaged or functioning improperly and cannot be used, an alternate method is available. The Lottery has assembled film canisters containing the slot numbers of the prize amounts on the Big Spin Wheel. If the alternate method must be used, the film canisters would be placed in a large plastic sack. A person could pick a film canister from a bag, match it to the corresponding slot on the wheel and receive that prize amount. The Lottery has not had to rely on the alternate method for any of the previous Big Spins.

LEGISLATIVE LIAISON COMMITTEE

In January of 1987, a Legislative Liaison Committee was established to report on the operations of the Lottery. According to section 23-5-1008, MCA, "The liaison committee consists of four legislators. Two members must be from the senate and two members must be from the house of representatives. The speaker of the house and the senate committee on committees shall appoint the members of the liaison

and the senate committee on committees shall appoint the members of the liaison committee, and no more than two members may be of the same political party. No legislator who has any ownership in any gambling device or establishment may be appointed to the liaison committee. The liaison committee shall meet once each fiscal year with the commission at Helena and shall report to the legislature on the activities and operations of the state lottery."

As of December 1988, the Legislative Liaison Committee has not held any meetings with the Lottery Commission.

CHAPTER III

COMPUTER SECURITY

As part of our audit, we examined security controls over the Lottery's computer system. Computer security controls protect assets and limit losses from three types of basic threats: intentional acts such as fraud and sabotage; disasters such as water and fire; and human errors and omissions such as data entry errors. During our audit, we noted several weaknesses in computer security controls. These weaknesses concern: computer security reviews; EDP audit/data security administrator functions; and physical and environmental controls.

COMPUTER SECURITY REVIEWS

Section 2-15-114, MCA, which applies to all state agencies, states: "Each department head is responsible for ensuring an adequate level of security for all data and information technology resources within his department and shall... implement appropriate cost-effective safeguards to reduce, eliminate, or recover from identified threats to data and information technology resources" and "ensure internal evaluations of the security program for data and information technology resources are conducted."

Many of the computer security weaknesses detected during our audit could have been addressed by an internal security evaluation performed by the Lottery. The Lottery reviewed the software provided from Scientific Games, Inc. to determine if it functioned properly; however, the Lottery has not performed an internal evaluation of data and information technology resources security.

In order to improve security over computer operations, we believe the Lottery should perform an internal security review.

RECOMMENDATION #1

WE RECOMMEND THE LOTTERY PERFORM SECURITY REVIEWS
AS REQUIRED BY SECTION 2-15-114, MCA.

EDP AUDIT/DATA SECURITY ADMINISTRATOR FUNCTION

The EDP audit and data security administrator functions are a very important part of the Lottery operation. Properly organized and independent of computer operations, the EDP audit function can identify and strengthen EDP security controls. The data security administrator is responsible for the implementation, modification,

monitoring and enforcement of data security. For the duration of our audit, one person held a combined position of EDP auditor/data security administrator. The Lottery could improve EDP auditor independence and data security administrator documentation.

EDP Auditor Independence

The EDP auditor position is currently not an internal audit function as intended by the job description for that position. The EDP auditor performs operational duties which are not consistent with auditor responsibilities. The EDP auditor is currently involved in routine computer operations such as establishing game files, loading inventory and winner tapes, and grouping lottery ticket claim forms for entry into the computer. The EDP auditor also performs data security administrator duties such as hardware maintenance and establishing passwords and computer security levels. By creating and extensively working with data directly related to his audit work, the EDP auditor is placed in a position which would require him to audit his own work. This impairs his independence and his ability to objectively perform future audit work.

According to the Standards for the Professional Practice of Internal Auditing, "internal auditors should be independent of the activities they audit." The standards also state, "internal auditors should not assume operating responsibilities. But if on occasion management directs internal auditors to perform nonaudit work, it should be understood that they are not functioning as internal auditors. Moreover, objectivity is presumed to be impaired when internal auditors audit any activity for which they had authority or responsibility. This impairment should be considered when reporting audit results."

In order to perform his auditing duties in an independent manner, we believe the Lottery should remove the EDP auditor from job duties affecting his independence. Computer operation duties can be performed by the data processing employees and system administrator duties can be performed by an existing employee in the operations division.

RECOMMENDATION #2

WE RECOMMEND THE LOTTERY REMOVE THE EDP AUDITOR FROM PERFORMING DUTIES AFFECTING INDEPENDENCE.

Data Security Administrator

The data security administrator has access to special computer functions which establish file access rights for each Lottery employee. File access rights allow employees to read, update, delete, add files and use certain programs. The data security administrator is deciding who obtains file access and is also entering file and program access rights into the computer. We found little documentation to support the reasons why people were given their access rights. Management was not informed of and did not authorize any access changes.

Management should maintain some control over establishment of or changes to access rights. Without management's involvement, the potential exists for the data security administrator to make unauthorized changes to file access rights. Management for the data processing area could authorize and monitor establishment and changes to access rights.

In order to properly control the data security administrator function, we believe the data security administrator should document file access rights to allow review by management. We also believe data processing management should monitor and authorize these access rights independent of the data security administrator.

RECOMMENDATION #3

WE RECOMMEND THE LOTTERY REQUIRE:

- A. DATA PROCESSING MANAGEMENT INDEPENDENTLY AUTHORIZE AND MONITOR CHANGES TO ACCESS RIGHTS; AND,
- B. THE DATA SECURITY ADMINISTRATOR DOCUMENT ACCESS RIGHTS TO ALLOW MANAGEMENT REVIEW.

PHYSICAL AND ENVIRONMENTAL CONTROLS

Physical and environmental controls protect hardware and software from theft, accidental destruction, power fluctuations, heat, water, dirt and other exposures. Weaknesses in environmental controls unnecessarily expose the Lottery to risk of interruption of operations. We identified several areas where the Lottery needs to improve physical and environmental controls.

Water Pipes

During our observations we noted a sink and water pipe are located directly above the computer room. We also noted a water pipe is located in the backup power

supply room which houses the Card Access System. This system monitors access to areas inside the Lottery building.

The location of the sink and water pipes make Lottery operations vulnerable to disruption. If the water pipes were to break, damage could result to the computer system and Card Access System. This would cause operational disruption, loss of data and assets, and potential loss of revenue.

In order to minimize the possibility of considerable damage to the computer system, we believe the Lottery should eliminate the flow of water to the loft area above the computer room. Lottery officials stated eliminating the flow of water in the Backup Power Supply room may not be possible. In any case, the Card Access System should be protected from potential water damage. The cost to implement our recommendations is minimal.

RECOMMENDATION #4

WE RECOMMEND THE LOTTERY:

- A. ELIMINATE THE FLOW OF WATER TO THE LOFT ABOVE THE COMPUTER ROOM; AND,
- B. PROTECT THE CARD ACCESS SYSTEM FROM POTENTIAL WATER DAMAGE.

Backup and Disaster Recovery

Backup and recovery planning consists of those activities undertaken in anticipation of potential disastrous events. Although the Lottery does store backup data offsite, it does not have a formal, tested backup and recovery plan or an alternate site agreement. A major disruption in computer operations could adversely effect Lottery operations resulting in loss of data, assets or revenue.

Backup and recovery capabilities should be sufficient to restore files and applications when loss or damage to data occurs. Adequate backup and recovery plans should also include an alternate site or equipment replacement agreement. Such an agreement would provide backup equipment options for the Stratus computer system. Presently, the Lottery does not have a formal agreement for backup Stratus resources.

We believe the Lottery should develop a formal, tested backup and disaster recovery plan that includes backup equipment options. The Lottery may need to negotiate with other state lotteries or Stratus to establish alternate site or equipment replacement agreements.

RECOMMENDATION #5

WE RECOMMEND THE LOTTERY DEVELOP A FORMAL, TESTED BACKUP AND RECOVERY PLAN THAT INCLUDES AN ALTERNATE SITE OR EQUIPMENT REPLACEMENT AGREEMENT.

Tape Storage/Delivery

Throughout our audit, we observed the daily storage and delivery of computer tapes containing sensitive Lottery information. We found many tapes are stored horizontally and during delivery are transported without protective coverings.

Exposing tapes to physical and environmental dangers could destroy data contained on the tapes. Horizontally stacked tapes can cause curling of tape edges, resulting in potential read errors and loss of data. Transportation of computer tapes without protective coverings exposes tapes to extreme temperature, dirt, dust and other environmental dangers. Any one of these exposures could cause tape destruction and loss of data resulting in disruption of lottery operations.

In order to protect computer tapes from destruction and loss of data, the Lottery should store all computer tapes vertically and transport tapes with protective coverings.

RECOMMENDATION #6

WE RECOMMEND THE LOTTERY:

- A. STORE ALL COMPUTER TAPES VERTICALLY; AND,
- B. PURCHASE TAPE CASES FOR TRANSPORTING COMPUTER TAPES.

CHAPTER IV

BUILDING SECURITY

As part of our audit we reviewed the security over the Lottery building in Helena to determine if any deficiencies exist. It is important that sound procedures be established for all aspects of security to enhance the integrity of lottery operations. This chapter outlines improvements which can be made in the overall security of the Lottery building. These improvements concern the Card Access System, key control and other related building security issues.

CARD ACCESS SYSTEM

The Lottery has installed a Card Access System which monitors access to areas inside the Lottery building. Employees are issued pre-programmed cards that allow them access to certain areas of the building. Access is controlled by allowing employees to enter and exit doors that are programmed into their card. Currently the system can record who enters and exits the second main door of the Lottery building, who enters and exits the computer room area and computer room, and who enters the warehouse. In total the system can monitor the access of eight doors. All access is recorded on a printout.

During our security review at the Lottery we identified several areas where the Lottery could improve the Card Access System. These areas include evaluating time zones and access levels for employees, reviewing card access printouts and the Card Access System alarm.

Time Zones and Access Levels

The Card Access System allows Lottery employees to have access in several different time zones and building areas. Eight time zones exist, ranging from 24 hour access seven days per week to three hour access two nights per week. Six access levels exist, ranging from access to all areas of the Lottery building to entry into the main office area only. Excluding directors and security personnel, we found that seven employees have 24 hour access to the Lottery building which may not be needed.

Through an analysis of the card access printout for the last six months, we found that no access was needed between the hours of midnight and 6:00 a.m. The current time zones built into the system appear excessive. Liberal time zones decrease building security. Also, if the cards were lost or stolen, the liberal time

zones increase the chance of unauthorized access to the lottery building and warehouse.

The Lottery does not have written policies and procedures explaining the criteria for developing employee access levels and time zones. Also, no re-evaluation of existing access levels and time zones has been completed by security personnel.

RECOMMENDATION #7

WE RECOMMEND THE LOTTERY:

- A. FORMALIZE POLICIES AND PROCEDURES EXPLAINING THE CRITERIA FOR EMPLOYEE ACCESS LEVELS AND TIME ZONES; AND,
- B. STRUCTURE THE TIME ZONES TO REFLECT SECURITY NEEDS.

Reviewing the Card Access Printout

The Card Access System produces a printout of access activity 24 hours a day seven days per week. Examples of access activity recorded by the Card Access System include: forced door entry; attempted entry with a non-programmed card; and all entries and exits to and from the building with properly programmed cards. The day, date, time and card number are also recorded on the printout.

Security personnel at the Lottery currently do not review the Card Access printout on a daily basis. By not reviewing the printout daily, security personnel do not monitor who is entering and exiting different areas of the Lottery building and are not following up on potential problems on a timely basis.

In order to better monitor access in and out of the building, we believe security personnel should review the printout on a daily basis. Any questionable access is then brought to the attention of security personnel on a timely basis.

RECOMMENDATION #8

WE RECOMMEND THE LOTTERY REQUIRE THE SECURITY STAFF TO REVIEW THE CARD ACCESS PRINTOUT ON A DAILY BASIS.

Card Access System Alarm

The Card Access System has an alarm system which consists of a buzzer inside the computer console. When a problem occurs, such as a forced door or a denied card, the alarm will sound.

Because the computer console is located in the backup power supply room in the warehouse, the alarm cannot be heard by security personnel in the office area. A delay in response time to the alarm by security personnel could occur.

We believe the Lottery should move the Card Access System alarm to an area where security personnel could immediately hear it. If a security breach occurs Lottery officials could immediately investigate, thus improving building security.

RECOMMENDATION #9

WE RECOMMEND THE LOTTERY MOVE THE CARD ACCESS SYSTEM ALARM TO AN AREA WHERE IT CAN BE DETECTED BY SECURITY PERSONNEL.

KEY CONTROL

At the present time the Montana Lottery does not have any policies or procedures for key control. The Lottery also does not keep detailed records for key issuance and return.

Failure to have key issuance and recovery procedures and adequate records could result in loss, misplacement or non-return of keys. If such situations were to occur regularly, the public's confidence in Lottery operations could be damaged. Effective policies and procedures would provide the Lottery with guidelines for issuing and recovering keys. Once policies and procedures are established, a detailed record of keys should be kept. The detailed record should include: the name of the key holder; the person authorizing issuance; the areas of key access; key identification number; date of issue; and date of return. We believe procedures and records of key issuances will improve security over the Lottery building.

RECOMMENDATION #10

WE RECOMMEND THE LOTTERY:

- A. ESTABLISH POLICIES AND PROCEDURES FOR ISSUANCE AND CONTROL OVER KEYS; AND,
- B. MAINTAIN A DETAILED RECORD OF KEY ISSUANCES.

BACKUP POWER SUPPLY ROOM

The Lottery has a room in the warehouse that contains several components crucial to Lottery operations. The room stores the backup power supply system to the computer system, Card Access System, phone system and alarm system. On several occasions during our observations of warehouse security we noted the room was not locked. Having access to this room, an intruder could cause extensive damage to Lottery operations.

In order to protect against unauthorized accesses to the room by Lottery employees or intruders, the room should be kept locked at all times.

RECOMMENDATION #11

WE RECOMMEND THE LOTTERY KEEP THE BACKUP POWER SUPPLY ROOM LOCKED AT ALL TIMES.

CHAPTER V

OTHER SECURITY/MANAGEMENT CONTROLS

During our audit we evaluated other security and management controls relating to Lottery operations. Although the Lottery has made significant strides in the development of security and management controls we identified areas for improvement. We found the Lottery needs to update its overall policies and procedures manual, develop security policies and procedures, perform background checks on contracted employees, update position descriptions and job duties, and establish a formal employee performance appraisal system.

OVERALL POLICIES AND PROCEDURES

During our audit of security at the Montana Lottery, we reviewed the adequacy of Lottery policies and procedures. We found the Lottery does not have policies and procedures for computer operations or updated policies and procedures for its overall operation. Operational priorities have outweighed the development of formal policies and procedures.

At the start of Lottery operations, Scientific Games, Inc. supplied the Lottery with a policies and procedures manual. As Lottery operations progressed, procedures started to vary from the original manual. Consequently, many parts of the manual do not reflect current Lottery operations. The following are some examples:

Computer Policies and Procedures - the original manual does not provide the Lottery with any policies and procedures for computer operations. Section 2-15-114, MCA, requires departments for data and information technology resources to "develop and maintain written internal policies and procedures to assure security of data and information technology resources."

Ticket Delivery - the original manual states "if the truck cannot be backed into the warehouse, the area surrounding the truck will be roped off and access will be restricted to authorized personnel only." Since the Lottery has gates surrounding the warehouse the manual should state the gates should be closed and locked during ticket delivery.

Guaranteed Low End Prize Structure Test (GLEPS) - during our audit we noted that the test for the GLEPS is not performed in accordance with the policy in the original manual. The manual states "during the inventory process, Security or the warehouse supervisor will remove 10 packs (selected at random by the Director of Security) for detailed inspection of each ticket. A security person will perform the inspection." The Lottery is currently selecting one pack of tickets for inspection and the inspection is being performed by the internal auditor.

We believe adequate policies and procedures aid employees in the performance of their duties and provide assurance that overall Lottery operations are performed properly and consistently.

RECOMMENDATION #12

WE RECOMMEND THE LOTTERY UPDATE AND FOLLOW THE PRESENT POLICIES AND PROCEDURES MANUAL FOR LOTTERY OPERATIONS.

SECURITY POLICIES AND PROCEDURES

The Lottery does not have formal security policies and procedures as part of its overall manual. During our audit we identified a number of areas that could be covered in a security policies and procedures manual. The following describes some areas where the Lottery should develop or update security related policies and procedures.

Ticket Disposal - at the present time the Lottery does not have a formal policy for the disposal of instant game tickets and Big Spin entries. Some instant game tickets have been shredded and others sent back to Scientific Games, Inc. in Gilroy for disposal. The security of the Lottery may be compromised if tickets are not properly destroyed. Formal policies would ensure tickets are properly and consistently destroyed.

Dual Security - dual security is a security practice which requires the presence of two Lottery employees during significant Lottery operations. We noted dual security was broken several times during Lottery operations. We observed during mail pick-up that dual security was broken when Lottery employees entered the postal area to pick-up Big Spin envelopes. Also each team picking up the mail performed the pick-up differently. Several times during the audit we observed a Lottery employee inside the fenced area of the warehouse when no other Lottery employee was present. Formal policies should ensure that dual security exists at the proper times and that duties are performed consistently.

Retailer Signatures - during our visits with marketing representatives and review of retailer invoices, we noted marketing representatives are allowing unauthorized retailer employees to sign for lottery tickets. If the Lottery is going to allow unauthorized signatures, a formal policy should be developed explaining the process and information required before tickets are released.

Alarm Codes - on several occasions Lottery employees were unable to turn the alarm system off when necessary. Training and procedures will provide employees with direction when entering codes to turn the alarm system off. They will also provide direction to employees if problems arise when entering codes.

Alarm Documentation - when an alarm goes off at the Lottery, no documentation is kept on the reason the alarm was set off and what follow-up was done by the security staff. A formal policy would help ensure that all alarm incidents are documented and followed up as necessary.

Receptionist - we noted that on several occasions a receptionist was not at the front desk during working hours. Having someone at the front desk helps control who is entering and exiting the building. Alternative controls need to be developed if no one is able to be at the front desk during normal working hours.

After Hours Check - at the present time security personnel do not check the Lottery building for unauthorized personnel at the end of each business day. A formal policy should be developed for after hours checks to ensure no unauthorized personnel are left in the building.

Warehouse Door and Front Gates - on several occasions during our audit we noticed that the warehouse door was open during working hours without the front gates being closed and locked. We also noticed that these gates are not locked at night. A formal policy specifying when the front gates and the warehouse door will be opened and closed, would improve security over Lottery operations.

Bagging of Big Spin Mail - the Lottery does not have updated policies and procedures for bagging Big Spin mail for the Big Spin Drawing. Updated policies would ensure dual security exists at all times and that the bagging process is performed properly and consistently.

We believe a security policies and procedures manual will ensure Lottery employees are performing duties properly and consistently. It could also serve as the basis for the Lottery's own on-site security reviews. Finally, sound security policies will maintain the public's confidence in the Lottery.

RECOMMENDATION #13

WE RECOMMEND THE LOTTERY DEVELOP A SECURITY POLICIES AND PROCEDURES SECTION TO BE INCLUDED IN THE OVERALL POLICIES AND PROCEDURES MANUAL.

EMPLOYEE/RETAILER BACKGROUND CHECKS

An integral part of the Security division's operation is to conduct background checks on employees and retailers. During our audit we reviewed the adequacy of employee/retailer background checks. We noted that the Lottery does not have any formal written policies and procedures for conducting employee/retailer background checks. During our review of retailer files we noted some files did not contain credit reports and others did not contain a set of classified finger prints.

The lack of formal written policies and procedures may cause the Lottery to miss or not inquire about important information needed for employee/retailer background checks. We believe formal policies and procedures will assure proper and consistent background information is obtained for Lottery employees and retailers.

We also noted that a background check was not completed on the janitorial firm contracted by the Lottery. While we realize that janitors have access to the main office area only, they are in a position to gain unauthorized access in other areas. We believe the Lottery should conduct a full background investigation on the janitorial firm.

RECOMMENDATION #14

WE RECOMMEND THE LOTTERY:

- A. DEVELOP POLICIES AND PROCEDURES FOR EMPLOYEE/RETAILER BACKGROUND CHECKS; AND,
- B. CONDUCT A BACKGROUND CHECK ON THE JANITORIAL FIRM EMPLOYED BY THE LOTTERY.

POSITION DESCRIPTIONS AND JOB DUTIES

As part of our audit we examined position descriptions for Lottery staff and observed the performance of their duties. We noted several Lottery employees are performing duties inconsistent with their job descriptions. The following lists some examples of duties Lottery employees are performing that are not listed in their position descriptions:

- the Investigator is involved in mail pick-up, ticket delivery and disposal and other warehouse duties;
- the Stock Clerk II is involved in mail pick-up and delivery, researching lost tickets, and issuing and logging Instabucks;
- the Inventory Control Technician II is involved in mail pick-up and delivery and writing warehouse policies and procedures; and,
- the Internal Auditor is a back-up to Tel-Sell operations.

Position descriptions should include all the duties an employee is required to perform. We believe the Lottery should update position descriptions to adequately describe the duties being performed by its employees.

RECOMMENDATION #15

WE RECOMMEND THE LOTTERY UPDATE POSITION DESCRIPTIONS TO ACCURATELY DESCRIBE DUTIES PERFORMED BY EMPLOYEES.

PERFORMANCE APPRAISALS

Performance appraisals are a tool used by management to measure employee performance. Appraisals also provide employees with job objectives which aid them in the performance of their duties. During our audit we noted performance appraisals have not been completed for any Lottery employees since the Lottery's inception. Job objectives and standards are still in the drafting process.

According to the Department of Administration's Performance Appraisal Policy listed in Montana Operations Manual section 3-0115, "the performance of each full-time and part-time employee in a permanent position ... who has completed a probationary period shall be appraised during established appraisal periods of not more than one year's duration. The rating of performance shall take place no more than sixty calendar days after the close of the appraisal period." We believe the Lottery should implement a formal employee performance appraisal system.

RECOMMENDATION #16

WE RECOMMEND THE LOTTERY IMPLEMENT A FORMAL EMPLOYEE PERFORMANCE APPRAISAL SYSTEM.

WORKING PAPER DOCUMENTATION

During our audit we reviewed working papers and several reports prepared by the internal audit function of the Montana Lottery. Our review showed there was inadequate documentation of the audit work done to adequately support the reports issued.

Without adequate documentation in the form of audit plans, programs and working papers, it is difficult for management to review the work done by the internal audit staff. Also, external auditors are unable to rely on the work performed by the internal audit function.

According to government auditing standards, "sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditor's judgments and conclusions regarding the organization, program, activity, or function

under audit. A record of the auditor's work is to be retained in the form of working papers."

RECOMMENDATION #17

WE RECOMMEND THE LOTTERY INTERNAL AUDITOR MAINTAIN BETTER DOCUMENTATION IN THE FORM OF PLANS, PROGRAMS, AND WORKING PAPERS.

SPECIAL PROMOTIONS

The Instabuck program is an ongoing special promotion program involving the use of coupons. Each coupon has the value of one dollar and can be redeemed for one Lottery instant game ticket. Instabucks are issued to retailers, retailer employees and members of the public during promotional or special events sponsored by the Lottery. The Instabucks can be redeemed at any retail outlet selling lottery tickets. Once retailers exchange Instabucks for Lottery tickets, a hole is punched in the Instabuck coupons. The coupons are then returned to Lottery headquarters where the retailers receive a credit on their lottery account.

The Instabucks were printed in Missoula and 500,000 were transported to Lottery headquarters by Lottery personnel. The Instabucks arrived in packs of five hundred and were not inventoried. Several months passed before the Lottery had an accurate inventory of Instabucks. Even though the coupons were stored in the locked, fenced area of the warehouse, the coupons could have been lost, misplaced or stolen because an accurate inventory was not completed immediately upon receipt of the coupons.

The issuance of Instabucks also poses a concern. At the present time Instabucks can only be accounted for in large quantities. According to policies developed for the issuance of Instabucks, "when distributing Instabucks in a quantity to an individual or for an event, the person distributing the Instabucks should obtain a signature from the manager or manager's designee on the pre-numbered Instabuck certificate receipt form." However, these procedures do not define what constitutes a quantity of tickets. We noted during our visits with marketing representatives that they were giving small quantities of Instabucks to employees of retailers and were not requiring employees to sign for them. The potential exists for marketing representatives to give Instabucks to friends or relatives because strong controls do not exist for Instabuck issuances.

We also noted that if Instabucks are distributed directly to retailer management, the potential exists for retailers to receive an additional discount on the purchase of instant game tickets. For example, if a marketing representative gave ten Instabucks directly to retail management, and the retailer did not distribute the Instabucks to employees, the retailer could send these Instabucks into the Lottery and receive a ten dollar credit on his account. According to state law, "sales agents are entitled to no more than a 5% commission on tickets and chances sold." In order to ensure retailers do not receive additional commissions from the Instabuck program, the Lottery needs to implement strong controls over Instabuck distributions. Sound policies and procedures should be developed before promotions are started. This will provide guidance for Lottery employees when carrying out the intentions of promotions and ensure that strong controls are maintained.

In order for proper security controls to exist over special promotions, we believe the security division should be involved whenever special promotions are considered. For example, if promotional ideas are borrowed from other states, security should contact that state's security department about that promotion. Based on their findings, security should make recommendations on the proposed promotion.

RECOMMENDATION #18

WE RECOMMEND THE LOTTERY:

- A. DEVELOP POLICIES AND PROCEDURES FOR INSTABUCK DISTRIBUTIONS; AND
- B. INVOLVE SECURITY STAFF IN THE PLANNING AND DEVELOPMENT OF SPECIAL PROMOTIONS.

LEGISLATIVE LIAISON COMMITTEE

By law a Legislative Liaison Committee was established to report to the legislature on the activities and operations of the state lottery. The statute also requires the committee meet with the Lottery Commission on an annual basis.

As of December 1988, the Legislative Liaison Committee and the Lottery Commission have not held any meetings. The Lottery has been unsuccessful in scheduling a meeting between the two groups. In order to comply with section 23-5-1008, MCA, a meeting should be scheduled between the Lottery Commission and the Legislative Liaison Committee every fiscal year.

RECOMMENDATION #19

WE RECOMMEND A MEETING BE SCHEDULED EVERY FISCAL YEAR BETWEEN THE LEGISLATIVE LIAISON COMMITTEE AND LOTTERY COMMISSION.

SUMMARY

Operations for the Montana Lottery started in December of 1986, with the appointment of a Director and Lottery Commission. This report concentrates on security issues we identified during our audit. As with any rapid growth situation, we found operational priorities have superceded the development of procedures to address the security issues we identified in this report.

Overall, Lottery management and staff, have made a good effort at establishing adequate security over its operations. The Lottery is aware of most of the improvements which are required and in many cases has already taken corrective action. We believe the implementation of our recommendations will further strengthen the security over Lottery operations: thus, improving the public's perception of the security and integrity of the Lottery.

AGENCY RESPONSE



Ted Schwinden
Governor

Diana S. Dowling
Director

Gerald J. LaChere
Operations
Nancy L. Goodspeed
Marketing
L. John Onstad
Security

2525 N. Montana
Helena, MT 59601-0542
(406) 444-LUCK

RECEIVED

JAN 10 1989

Montana Legislative Auditor

January 10, 1989

Jim Pellegrini, Deputy Legislative Auditor
Office of the Legislative Auditor
State Capital
Helena, MT 59620

Dear Jim,

Enclosed are two separate written replies to your report. I hope that this format meets your needs.

If I can be of further assistance to you please feel free to contact me.

Sincerely,

L. John Onstad
Director of Security
Montana Lottery

LJO/ml

Enclosed

Montana Lottery Commission Members

Spencer Hegstad, Chairman
Dillon

Keith Colbo
Helena

33

Pat DeVries
Polson

Jim Moore
Bozeman

Glenn Osborne
Great Falls

Reply To The Performance Audit
of Montana Lottery Security

Recommendations

R #1. We concur

Our timetable for the completion of a Lottery Security Review is July 31, 1989.

R #2. We concur

Our timetable for complying with your recommendation is May 31, 1989.

R #3. A. We concur

B. We concur

Our timetable for complying with both A & B recommendations is May 31, 1989.

R #4. A. We concur

B. We concur

Our timetable for complying with both A & B recommendations is April 28, 1989.

R #5. We concur

Our timetable for complying with your recommendation is December 29, 1989.

R #6. A. We concur

B. We concur

Part A. of your recommendation was completed in the early summer of the 1988.

Part B. of your recommendation was completed in November of 1988.

R #7. A. We concur

B. We concur

Our timetable for complying with both A & B recommendations is by April 28, 1989.

R #8. We concur

On October 1, 1988, we began daily review and filing of the printout.

R #9. We concur

Our timetable for complying with your recommendation is by March 31, 1989.

R #10. A. We concur

B. We concur

Part A. of your recommendation will be completed by February 28, 1989.

Part B. of your recommendation for the detailed records on the issuance of keys began in the summer of 1988.

R #11. We concur

 The backup power supply room has been locked since the summer of 1988.

R #12. We concur

 Our timetable for complying with your recommendations is by October 31, 1989.

R #13. We concur

 Our timetable for complying with your recommendations is by July 31, 1989.

R #14. A. We concur

 B. We concur

 Part A. Our timetable for complying with your recommendations is by April 28, 1989.

 Part B. A background investigation was completed in the fall of 1988 on the janitorial firm employed by the Lottery.

R #15. We concur

 The Lottery is currently in the process of updating all position descriptions with the assistance of the Commerce Personnel office. Our timetable for complying with your recommendations is by July 1, 1989.

R #16. We concur

 The Lottery has adopted a system and staff supervisors have been trained, implementations continuing. Our timetable for complying with your recommendations is by September 29, 1989.

R #17. We concur

Our timetable for complying with your recommendation is effective immediately.

R #18. A. We concur

 B. We concur

Part A. Additions to the existing policies and procedures regarding instabucks was completed and became effective December 12, 1988. We intend to have other policies in place by February 28, 1989.

Part B. The Security Staff will be involved in the planning and developement of special promotions effective immediately.

R #19 We concur

We as the Lottery have made several attempts to arrange such a meeting. We find ourselves at a distinct disadvantage in this matter. We will continue our efforts. On January 9, 1989 we have a tentative meeting scheduled for January 12, 1989.



